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STATE OF WASHINGTON
GAMBLING COMMISSION

GAMBLING COMMISSION
COMM & LEGAL DIVISION

In the Matter of the Suspension or Revocation of)
the License to Conduct Gambling Activities of:) NO. CR 2012-00800
)
Gameworks) **SETTLEMENT ORDER**
Seattle, Washington,)
)
Licensee.)
_____)

The Washington State Gambling Commission and the licensee, Gameworks, have entered into this Settlement Order to resolve the administrative charges pending against the licensee. Stephanie U. Happold, Assistant Attorney General, and Melinda Froud, Staff Attorney, represent the Commission. Adam Telanoff, General Counsel, represents the licensee.

I.

The Washington State Gambling Commission issued Gameworks license number 53-21182, authorizing Commercial Amusement Game activity in Seattle.

The license expires on May 19, 2013, and was issued subject to the licensee's compliance with state gambling laws and rules.

II.

In the above-entitled case, the Gambling Commission issued a Notice of Administrative Charges and Opportunity for an Adjudicative Hearing on, August 29, 2012, seeking the suspension or revocation of Gameworks' license to conduct gambling activities. On September 18, 2012, Commission staff received the licensee's request for a hearing. On November 5, 2012, the Gambling Commission issued an Amended Notice of Administrative Charges and Opportunity for an Adjudicative Hearing. The following summary of facts and violations were alleged in the Notice of Administrative Charges:

SUMMARY:

From May 2011 to May 24, 2012, Gameworks Entertainment, LLC operated Gameworks under a void license issued to the prior owners, Sega Gameworks USA, Inc. After the license expiration date, the licensee operated commercial amusement games from at least May 25, 2012, through July 20, 2012, without a valid gambling license, despite repeated warnings from Commission staff.

VIOLATIONS:

- 1) RCW 9.46.075 Denying, suspending, or revoking an application, license or permit**
The commission may deny an application, or suspend or revoke any license or permit issued by

it, for any reason or reasons, it deems to be in the public interest. These reasons shall include, but not be limited to, cases wherein the applicant or licensee, or any person with any interest therein: (The following subsections apply.)

(1) Has violated, failed or refused to comply with the provisions, requirements, conditions, limitations or duties imposed by chapter 9.46 RCW and any amendments thereto, or any rules adopted by the commission pursuant thereto, or when a violation of any provision of chapter 9.46 RCW, or any commission rule, has occurred upon any premises occupied or operated by any such person or over which he or she has substantial control.

(7) Makes a misrepresentation of, or fails to disclose, a material fact to the commission;

(10) Has pursued or is pursuing economic gain in an occupational manner or context which is in violation of the criminal or civil public policy of this state if such pursuit creates probable cause to believe that the participation of such person in gambling or related activities would be inimical to the proper operation of an authorized gambling or related activity in this state. For the purposes of this section, occupational manner or context shall be defined as the systematic planning, administration, management or execution of an activity for financial gain;

2) WAC 230-03-085 Denying, suspending, or revoking an application, license or permit

We may deny, suspend, or revoke any application, license or permit, when the applicant, licensee, or anyone holding a substantial interest in the applicant's or licensee's business or organization:

(The following subsections apply.)

(1) Commits any act that constitutes grounds for denying, suspending, or revoking licenses or permits under RCW 9.46.075.

(3) Has demonstrated willful disregard for complying with ordinances, statutes, administrative rules, or court orders, whether at the local, state, or federal level.

Gameworks' willfully disregarded Commission rules by continuing to operate without a license in violation of RCW 9.46.160, despite being told that they could not do so until they received their new license. Gameworks also, pursued economic gain by operating without a license, and grounds exist to suspend or revoke Gameworks' license under RCW 9.46.075(1), (7), (10), and WAC 230-03-085(1) and (3).

3) RCW 9.46.160 Operating Amusement Games Without a License

Provides that any person who conducts any activity for which a license is required by this chapter, or by rule of the Commission, without the required license issued by the Commission shall be guilty of a class B felony. If any corporation conducts any activity for which a license is required by this chapter, or by rule of the Commission, without the required license issued by the commission, it may be punished by forfeiture of its corporate charter, in addition to the other penalties set forth in this section.

4) WAC 230-06-080 Report changes to application information and submit update documents and information

(The following subsections apply.)

(1) Licensees must notify us in writing if any information filed with the application changes in any way within thirty days of the change.

(2) Licensees must submit to us any new or updated documents and information, including the following:

(a) Articles of incorporation or bylaws, or any other documents which set out the organizational structure and purposes; and

(b) All oral or written contracts and agreements which relate to gambling activities or alter the organizational structure of the licensee's organization or business activities in Washington.

5) WAC 230-06-108 Ownership changes — prohibited.

All gambling licenses held by a business will become void when the following changes in ownership occur and a new license must be obtained before operating any gambling activities: (The following subsections apply.)

(1) A person or business becomes the owner of more than fifty percent of corporate stock or limited liability membership shares/units, when the person or business did not have at least the following substantial interest in the business immediately before the transaction:

(a) Ten or more percent ownership in a privately held corporation or limited liability company (LLC); or

(b) Five or more percent ownership in a publicly traded corporation or LLC; or

(2) The business is sold; or

(3) A sole proprietorship brings in a new person and forms a partnership, corporation or LLC; or

(4) A partnership adds another partner or changes partners; or

(5) A change in a person's ownership, together with ownership of any members of his or her immediate family, who are under the age of eighteen years of age, results in the person having more than fifty percent interest in the business when the person did not have at least the following substantial interest in the business:

(a) Ten or more percent ownership in a privately held corporation or LLC; or

(b) Five or more percent ownership in a publicly traded corporation or LLC.

Gameworks failed to timely notify Commission staff of its 100% ownership change, in violation of WAC 230-06-080. Once the change of ownership occurred in May 2011, Gameworks' license was invalid. However, Gameworks continued to conduct gambling activities, in violation of WAC 230-06-108. Therefore, grounds exist to suspend or revoke Gameworks' license under RCW 9.46.075(1), (7), (10), and WAC 230-03-085(1) and (3).

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III.

The facts and violations set forth in paragraph II above constitute grounds for the suspension or revocation of the licenses issued to Gameworks pursuant to RCW 9.46.075 and WAC 230-03-085.

IV.

The licensee acknowledges that it received the Amended Notice of Administrative Charges issued in this case, and understands the facts and violations contained in it.

On September 18, 2012, Commission staff received Gameworks' request for a hearing in this matter; however, the licensee has waived its right to a hearing, based on the terms and conditions of this Settlement Order.

The licensee states Sega, the former owner of Sega Gameworks USA, Inc. (SGUI), submitted the renewal with old information on it after the agreement to sell SGUI had been reached. The result is that SGUI paid for the entire year, but by strict interpretation of WAC 230-06-108 is again required to pay for the full year. It is the licensee's position that this was not a willful action by Gameworks, but a mistake based on the belief that the renewal would have correctly identified the change in ownership. As a result, the licensee agrees to the following terms and sanctions:

- 1) Gameworks' license is hereby suspended for a period of **twenty (20) days**, provided that:
 - a) **Five (5) days** of the suspension shall not be currently served, but shall be deferred for a period of one year from the date of entry of this Settlement Order, subject to the following: The licensee agrees not to violate the terms of this Settlement Order, or any of Washington's gambling statutes or regulations during the one (1) year term. If the licensee violates this Settlement Order or gambling statutes or regulations, and if the violation is the type that warrants the filing of administrative or criminal charges, then the Director may impose the five-day deferred suspension of the current gambling licenses and any subsequently acquired gambling licenses.
 - b) The parties agree that the Director of the Washington State Gambling Commission, pursuant to this agreement, has discretion to determine whether the licensee has violated any term of this agreement. In the event the Director determines that a violation of this agreement has occurred, he may suspend the license(s) issued to the licensee for up to five days, by mailing or delivering a Notice of Order of Administrative Charges to the licensee. In addition to the consequences of the new violation, the deferred sentence shall also be served. The licensee shall be afforded the opportunity to have an Adjudicative Proceeding, which includes a hearing on the alleged violations.
 - c) **The licensee has chosen to serve the remaining fifteen (15) days of this suspension.**
 - **The suspension will be served on Thursday, April 25, 2013, to Thursday, May 9, 2013.**
 - No amusement game activities shall take place at the licensed premises starting at 8:00 a.m. on Thursday, April 25, 2013. No amusement game tickets may be redeemed

during the suspension period.

- The licensee may resume its gambling activities at 8:00 a.m. on Friday, May 10, 2013.

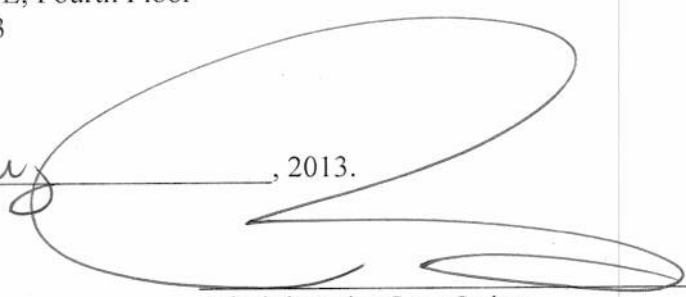
d) **The signed order must be received by Commission staff on or before Tuesday, April 23, 2013, and mailed to Commission Headquarters at the following address:**

Washington State Gambling Commission
Attention: Communications and Legal Division
P.O. Box 42400
Olympia, WA 98504-2400

or delivered (in person or via private courier) to the following address:


Washington State Gambling Commission
Attention: Communications and Legal Division
4565 7th Avenue SE; Fourth Floor
Lacey, WA 98503

DATED this 14th day of May, 2013.

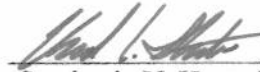

Administrative Law Judge

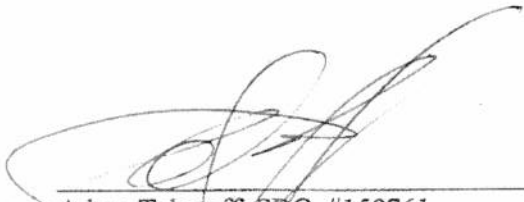
APPROVED FOR ENTRY:


By signing this Settlement Order,
the licensee acknowledges and understands
the terms and conditions contained in it.

 Date 4-23-13
Gregory Stevens,
Highest Ranking Member, Gameworks

APPROVED AS TO FORM:

 #29724
Stephanie U. Happold, #38112
Assistant Attorney General,
Representing the Washington
State Gambling Commission


Adam Telanoff, SBC, #159761
General Counsel,
Representing Gameworks


Melinda A. Froud, WSBA #26792,
Staff Attorney
Washington State Gambling Commission